

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Ridley-Thomas Analyst: Darrine Distefano Bill Number: AB 592  
Related Bills: See Legislative History Telephone: 845-6458 Introduced Date: February 18, 2003  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Enterprise Zones/Allows City or County to Apply for Reconfiguration of Geographic Boundaries

### SUMMARY

This bill would allow local governments to apply to reconfigure the geographic boundaries of an existing enterprise zone (EZ).

### PURPOSE OF THE BILL

It appears that the purpose of this bill is to enable local governments to reconfigure EZs to attract new businesses.

### EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative on and after January 1, 2004.

### POSITION

Pending.

### ANALYSIS

#### FEDERAL/STATE LAW

Existing federal law provides for the existence of empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an EZ. Using specified criteria, the Technology, Trade, and Commerce Agency (TTCA) designates EZs from the applications received from the governing bodies. EZs are designated for 15 years (except EZs designated prior to 1990 that meet certain criteria may be extended to 20 years) and TTCA has designated 39 of the 42 EZs authorized under existing law. When an EZ expires, TTCA is authorized to designate another in its place. TTCA may approve the geographic expansion of EZs up to 15% in size and, for certain small EZs, up to 20% in size.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within the EZ. These incentives include a sales or use tax credit, a hiring credit, a business expense deduction, a net interest deduction, special net operating loss treatment, and a tax credit for employees working in an EZ.

Board Position:

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Department Director

Date

### THIS BILL

This bill would allow the governing body of a city, county, or city and county to apply to TTCA for the reconfiguration of the geographic boundaries of an existing EZ within its jurisdiction. This bill would allow TTCA the authority to approve that application if TTCA finds that the reconfiguration is consistent with the purpose of an EZ.

The reconfiguration would have to be consistent with the EZ's existing size and subject to the following criteria:

- ❖ No business could be removed from the EZ as a result of the reconfiguration,
- ❖ No more than 10% of the EZ could be reconfigured,
- ❖ The governing body demonstrates a need to reconfigure based upon county unemployment statistics, tract data from the U.S. Census, and the potential for future development of jobs, and
- ❖ The governing body provides official notification to TTCA to reconfigure and the notification includes a description and map of the proposed boundaries.

This bill would not extend the original designation date of the EZ.

This bill would require the governing body that administers the reconfigured EZ to report to TTCA evidence of direct increases of employment by any business granted tax incentives or other benefits related to the EZ. This information would be included in TTCA's annual report to the Legislature.

### IMPLEMENTATION CONSIDERATIONS

Since this bill does not make any changes to the tax incentives offered within the EZ, and the department does not administer the Government Code that regulates the boundaries of an EZ, implementing this bill would not significantly impact the department's programs and operations.

### **LEGISLATIVE HISTORY**

AB 439 (Matthews, 2003/2004) would expand the existing EZ boundaries from 15% to 25%. AB 439 is currently in the Committee on Jobs, Economic Development, and the Economy.

AB 2977 (Committee on Jobs, Economic Development, and the Economy, 2001/2002) was identical to this bill. AB 2977 failed to pass out of the Assembly Appropriations Committee.

AB 983 (Briggs 2001/2002) would have allowed the City Council of the City of Fresno to reconfigure the geographic boundaries of an existing EZ. AB 983 failed to pass out of the Senate Revenue and Taxation Committee.

AB 51 (Briggs, 1999/2000) would have allowed the governing body of a city, county, or city and county to reconfigure the geographic boundaries of an existing EZ. AB 51 failed to pass out of the Senate Appropriations Committee.

SB 84 (Costa and Poochigian, Stats. 1999, Ch. 137) modified the rules regarding expansion of EZs and allowed the EZs located in Fresno or Kern Counties to expand into adjacent unincorporated areas.

## OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that allow similar tax related incentives to those provided in California's economic development areas. The number of economic development areas varies from state to state. No information was available indicating whether any of these states allow the boundaries of their economic development areas to be reconfigured as proposed by this bill.

## FISCAL IMPACT

This bill would not significantly impact the department's costs.

## ECONOMIC IMPACT

### Revenue Estimate

Revenue Impact (\$ Millions)			
Fiscal Year	2003-04	2004-05	2005-06
Revenue Loss	-3	-8	-14

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Revenue Discussion

Revenue losses for reconfigured EZs under the Personal Income and the Corporation tax laws would largely depend on the additional amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of businesses claiming these tax benefits.

This bill would result in additional revenue losses by allowing new businesses to claim EZ tax credits and deductions. Existing businesses would not be removed from an EZ. It was assumed that most EZs would reconfigure its geographic boundaries by 10% to include additional businesses.

Currently, 42 EZs have been authorized, but only 39 have been designated. It is estimated that under current law, the 2003-04 revenue loss for existing EZs is \$150 million, or around \$3.8 million per EZ. It is assumed that the revenue loss for each expanded EZ under this bill would be on average, \$250,000 in the first year, \$350,000 in the second year, and \$500,000 by the third year. It was assumed that one-third of the EZs (or 13 EZs) would be prepared to reconfigure in the first year (\$250,000 times 13 equals \$3.3 million). In the second year, the first 13 expanded EZs would have increased their impact (\$350,000 times 13 equals \$4.5 million), and a second group of 13 would have begun using their credits (\$3.3 million) for a total of \$8 million. In the third year, the first 13 would be at full impact (\$500,000 times 13 equals 6.5 million), the second group of 13 would have increase their impact (\$350,000 times 13 equals 4.5 million), and the last 13 would have begun to use their credits (3.3 million). Therefore the full impact of this bill would occur in the third fiscal year because all 39 zones would be using the credits (6.5 million plus 4.5 million plus 3.3 million equals 14.3 million).

## LEGISLATIVE STAFF CONTACT

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